

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Isabella County Medical Care Facility	County Isabella
Fiscal Year End September 30, 2006	Opinion Date December 15, 2006	Date Audit Report Submitted to State 2/19/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Page, Olson and Company, P.C., CPA's		Telephone Number 989-773-5494		
Street Address 2865 South Lincoln Road PO Box 368		City Mt. Pleasant	State MI	Zip 48804
Authorizing CPA Signature 		Printed Name Bobbie Jo Marr		License Number 1101026172

MEDICAL CARE FACILITY
ISABELLA COUNTY
AUDITED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

MEDICAL CARE FACILITY
ISABELLA COUNTY
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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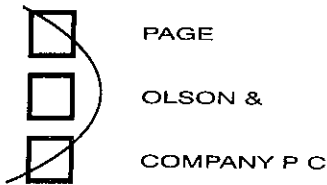
MEDICAL CARE FACILITY
ISABELLA COUNTY
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

DEPARTMENT OF HUMAN SERVICES (DHS) BOARD

Eileen Rau	Chairperson
Thompson Moffit	Vice-Chairperson
Kevin Sawnick (10/1/04 to 6/1/05)	Member
Dale MacDonald (6/15/05 to present)	Member

MEDICAL DIRECTOR
Michael Gross, M.D.

ADMINISTRATOR
John P. Riley, Jr.



INDEPENDENT AUDITORS' REPORT ON
GENERAL-PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTAL FINANCIAL INFORMATION

December 15, 2006

Department of Human Services Board
Medical Care Facility
Isabella County, Michigan

We have audited the accompanying basic financial statements of the Isabella County Medical Care Facility (the "Facility"), a component unit of Isabella County, Michigan, as of and for the years ended September 30, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Medical Care Facility as of September 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 8 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006 on our consideration of Isabella County Medical Care Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Department of Human Services Board
Isabella County Medical Care Facility
Isabella County, Michigan

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Isabella County Medical Care Facility's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis, all of which are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Page, Olson & Company

MEDICAL CARE FACILITY
ISABELLA COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED 2006 AND 2005

This Management Discussion and Analysis (MD&A) of the Isabella County Medical Care Facility (Facility) provides an overview of the financial performance and statements of the Facility for the years ended September 30, 2006 and 2005. The information contained in this MD&A should be considered in conjunction with the Facility's financial statements and the accompanying notes, which immediately follow this section.

SUMMARY OF NET ASSETS

A condensed summary of the Facility's total net assets at September 30 is as follows:

	<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>
ASSETS:		
Current and Other Assets	\$ 4,711,082	\$ 4,247,563
Capital Assets - Net of Accumulated Depreciation	<u>10,310,423</u>	<u>9,887,395</u>
Total Assets	15,021,505	14,134,958
LIABILITIES:		
Current Liabilities	1,016,473	920,068
Long-Term Liabilities	<u>7,166,814</u>	<u>7,420,563</u>
Total Liabilities	8,183,287	8,340,631
NET ASSETS:		
Invested in Capital Assets - Net of Related Debt	3,176,141	2,471,596
Restricted - Non Expendable	55,226	55,226
Restricted - Expendable	2,151,519	2,606,573
Unrestricted	<u>1,455,332</u>	<u>660,932</u>
Total Net Assets	<u>\$ 6,838,218</u>	<u>\$ 5,794,327</u>

The above analysis focuses on the net assets. The change in net assets of the Facility's business-type activities is discussed below. The Facility's net assets were \$6,838,218 and \$5,794,327 for the years ended September 30, 2006 and 2005. Expendable restricted net assets of \$2,151,519 and \$2,606,573 at September 2006 and 2005 are reported to show legal constraints on the funds. The non-expendable restricted net assets of \$55,226 for both years are reported to show that the funds may not be spent due to the constraints of a trust. Capital assets, net of related debt totaling \$3,176,141 and \$2,471,596 for the years ended September 30, 2006 and 2005 compare the original cost, less depreciation of the Facility's capital assets to the long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt comes due. The remaining amount of net assets of \$1,455,332 and \$660,932 was unrestricted at September 30, 2006 and 2005.

The unrestricted net assets on the business-type activities represents the accumulated results of all past years' operations. The operating results of the enterprise fund will have a significant impact on the change in unrestricted net assets from year to year.

MEDICAL CARE FACILITY
ISABELLA COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED 2006 AND 2005

SUMMARY OF ACTIVITIES

A summary of the Statement of Activities, which shows the changes in net assets for the years ended September 2006 and 2005, is as follows:

	<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>
REVENUE		
Program Revenue:		
Charges for Services	\$ 7,261,947	\$ 5,239,485
Operating Grants and Contributions	144,368	181,031
General Revenue:		
Property Taxes	1,150,880	1,072,663
Intergovernmental Transfer	447,484	109,611
Other	156,544	223,253
Total Revenue	<u>9,161,223</u>	<u>6,826,043</u>
FUNCTION/PROGRAM EXPENSES		
Primary Service	7,098,715	6,005,120
Therapy	481,893	393,549
Barber & Beautician	10,992	10,385
Adult Day Care	246,999	259,394
Interest on Long Term Debt	278,733	-
Total Expenses	<u>8,117,332</u>	<u>6,668,448</u>
Increase (Decrease) in Net Assets	<u>\$ 1,043,891</u>	<u>\$ 157,595</u>

The increase in net income from 2005 to 2006 is due primarily to the increase in charges for services for the increased number of residents and the increase in Intergovernmental transfers.

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash equivalents are considered cash on hand, demand deposits, and short-term investments (including restricted funds) with a maturity of three months or less.

	<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>
Cash Flows From:		
Operating Activities	\$ (632,962)	\$ (1,138,376)
Non-Capital Financing Activities	527,484	182,361
Capital and Related Financing Activities	198,806	(1,152,093)
Investing Activities	76,544	150,503
Net Increase (Decrease) in Cash and Cash Equivalents	169,872	(1,957,605)
Cash and Cash Equivalents October 1,	<u>3,324,643</u>	<u>5,282,248</u>
Cash and Cash Equivalents September 30,	<u>\$ 3,494,515</u>	<u>\$ 3,324,643</u>

The increase in cash and cash equivalents for the year ended September 30, 2006 results mainly from increased Intergovernmental transfers and increased receipts from residents.

MEDICAL CARE FACILITY
ISABELLA COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED 2006 AND 2005

CAPITAL ASSETS

At September 30, 2006 and 2005 the Facility had \$13,756,215 and \$12,944,472 invested in a broad range of capital assets, including buildings, equipment and construction in progress. The amounts represent a net increase (including additions and disposals) of \$811,743 and \$2,131,979 from the prior years for the years ended September 30, 2006 and 2005.

	<u>9/30/06</u>	<u>9/30/05</u>
Buildings and Improvements	\$ 11,626,736	\$ 8,437,670
Equipment	2,129,479	1,984,832
Construction in Progress	<u>-</u>	<u>2,521,970</u>
 Total Capital Assets	 13,756,215	 12,944,472
 Less Accumulated Depreciation	 <u>(3,445,792)</u>	 <u>(3,057,077)</u>
 Net Capital Assets	 <u>\$ 10,310,423</u>	 <u>\$ 9,887,395</u>

Actual additions were \$811,743 and \$2,131,979 for the years ended September 30, 2006 and 2005 and included improvements, equipment and additional construction in progress. A capital lease/bond was entered into in 2003 to finance the construction in progress.

We present more detailed information about our capital assets in the notes to the financial statements.

DEBT

At September 30, 2006 and 2005, the Facility had \$7,481,814 and \$7,720,563, respectively, in long-term debt obligations outstanding.

	<u>9/30/06</u>	<u>9/30/05</u>
Capital Lease/Bond	\$ 7,134,282	\$ 7,415,800
Compensated Absences Payable	<u>347,532</u>	<u>304,763</u>
 Total Long-Term Debt Obligations	 <u>\$ 7,481,814</u>	 <u>\$ 7,720,563</u>

We present more detailed information about our long-term obligations in the notes to the financial statements.

MEDICAL CARE FACILITY
ISABELLA COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED 2006 AND 2005

CONTACTING THE FACILITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide the Facility's taxpayers, customers, investors and creditors with a general overview of the Facility's finances and to demonstrate the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administrator's office at 1222 North Drive, Mt. Pleasant, Michigan 48858.

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Statement I

	<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash	\$ 1,083,900	\$ 465,671
Petty Cash	200	200
Accounts Receivable - Patient Accounts Net of Allowance	1,048,287	839,911
Accounts Receivable - Adult Day Care	22,812	15,450
Accounts Receivable - Cost Report	47,790	-
Property Tax Receivable	16,889	13,706
Due From County	62,674	40,000
Due From Patient Trust Fund	742	612
Prepaid Expenses	<u>17,373</u>	<u>13,241</u>
Total Current Assets	2,300,667	1,388,791
<u>Restricted Assets</u>		
Cash	1,309,322	1,451,975
Investments	<u>1,101,093</u>	<u>1,406,797</u>
Total Restricted Assets	2,410,415	2,858,772
<u>Non-Current Assets</u>		
Building and Equipment	13,756,215	10,422,502
Construction in Progress	-	2,521,970
Less Accumulated Depreciation	<u>(3,445,792)</u>	<u>(3,057,077)</u>
Net Building and Equipment	<u>10,310,423</u>	<u>9,887,395</u>
TOTAL ASSETS	<u>\$ 15,021,505</u>	<u>\$ 14,134,958</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 154,579	\$ 236,584
Accounts Payable - Maintenance of Effort	40,288	14,449
Interest Payable	123,171	-
Payroll Deductions Payable	141,529	116,147
Salaries Payable	11,380	9,108
Deferred Revenue	230,526	243,780
Vested Benefits Payable, due within one year	15,000	15,000
Capital Lease Payable, due within one year	<u>300,000</u>	<u>285,000</u>
Total Current Liabilities	1,016,473	920,068
<u>Non-Current Liabilities</u>		
Long-Term Vested Benefits Payable	332,532	289,763
Capital Lease Payable (Net of Discount)	<u>6,834,282</u>	<u>7,130,800</u>
Total Non-Current Liabilities	<u>7,166,814</u>	<u>7,420,563</u>
TOTAL LIABILITIES	8,183,287	8,340,631
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	3,176,141	2,471,596
Restricted-Non Expendable	55,226	55,226
Restricted-Expendable	2,151,519	2,606,573
Unrestricted	<u>1,455,332</u>	<u>660,932</u>
TOTAL NET ASSETS	<u>6,838,218</u>	<u>5,794,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,021,505</u>	<u>\$ 14,134,958</u>

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Statement II

	2006				2005			
	Program Revenues		Business-type Activities		Program Revenues		Business-type Activities	
	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expense) Revenue and Changes in Net Assets	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions / Programs								
Primary Government-								
Business-type Activities:								
Primary Services	\$ 7,098,715	\$ 5,651,567	\$ 144,368	\$ (1,302,780)	\$ 6,005,120	\$ 3,932,109	\$ 181,031	\$ (1,891,980)
Therapy	481,893	1,443,215	-	961,322	393,549	1,132,000	-	738,451
Barber & Beautician	10,992	12,959	-	1,967	10,385	12,281	-	1,896
Adult Day Care	246,999	154,206	-	(92,793)	259,394	163,095	-	(96,299)
Interest on Long Term Debt	278,733	-	-	(278,733)	-	-	-	-
Total Governmental Activities	\$ 8,117,332	\$ 7,261,947	\$ 144,368	(711,017)	\$ 6,668,448	\$ 5,239,485	\$ 181,031	(1,247,932)
General Revenues:								
Property Taxes, Levied for Debt Services				1,150,880				1,072,663
Interest and Investment Earnings				76,544				150,503
Rents				80,000				72,750
Intergovernmental Transfer				447,484				109,611
Total General Revenues				1,754,908				1,405,527
Change in Net Assets				1,043,891				157,595
Net Assets - Beginning of the Year				5,794,327				5,636,732
Net Assets - End of the Year				\$ 6,838,218				\$ 5,794,327

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Statement III	
	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 7,261,947	\$ 5,239,485
Operating Expenses	<u>7,587,162</u>	<u>6,469,781</u>
Operating Income (Loss) Before Building Depreciation	(325,215)	(1,230,296)
Less Depreciation - Building	<u>(251,437)</u>	<u>(198,667)</u>
Operating Income (Loss)	(576,652)	(1,428,963)
Non-Operating Revenue (Expenses)	1,754,908	1,405,527
Other Financing Sources	<u>(134,365)</u>	<u>181,031</u>
Net Income (Loss)	1,043,891	157,595
Retained Earnings - October 1	<u>5,794,327</u>	<u>5,636,732</u>
Retained Earnings - September 30	<u>\$ 6,838,218</u>	<u>\$ 5,794,327</u>

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF CASH FLOWS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Statement IV	
	2006	2005
<u>Cash Flows from Operating Activities</u>		
Receipts from Customers and Others	\$ 6,958,229	\$ 5,109,130
Payments to Suppliers	(3,935,840)	(3,078,661)
Payments to Employees	(3,655,351)	(3,168,845)
Net Cash Provided (Used) by Operating Activities	(632,962)	(1,138,376)
<u>Cash Flows from Non-Capital Financing Activities</u>		
Rental Receipts	80,000	72,750
Intergovernmental Transfers	447,484	109,611
Net Cash Provided (Used) by Non-Capital Financing Activities	527,484	182,361
<u>Cash Flows from Capital and Related Financing Activities</u>		
Property Tax Collections	1,150,880	1,065,373
Principal Payments on Capital Debt	(285,000)	(270,000)
Capital Contributions	144,368	181,031
Acquisition and Construction of Capital Assets	(655,880)	(1,812,755)
Interest Paid on Capital Debt	(155,562)	(315,742)
Net Cash Provided (Used) by Capital and Related Financing Activities	198,806	(1,152,093)
<u>Cash Flows from Investing Activities</u>		
Interest Received	76,544	150,503
Net Increase (Decrease) in Cash and Cash Equivalents	169,872	(1,957,605)
Cash and Cash Equivalents at October 1,	3,324,643	5,282,248
Cash and Cash Equivalents , September 30,	\$ 3,494,515	\$ 3,324,643
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>		
Operating Income	\$ (855,385)	\$ (1,428,963)
Depreciation	388,714	318,222
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable - Patient Accounts	(208,376)	(43,733)
(Increase) Decrease in Accounts Receivable - Adult Day Care	(7,362)	10,166
(Increase) Decrease in Accounts Receivable - Cost Report	(47,790)	-
(Increase) Decrease in Prepaid Expenses	(4,132)	(11,877)
(Increase) Decrease in Due from County	(22,674)	(40,000)
(Increase) Decrease in Due from Patient Trust	(130)	(158)
Increase (Decrease) in Accounts Payable	(82,005)	77,999
Increase (Decrease) in Accounts Payable - MOE	25,839	(4,486)
Increase (Decrease) in Interest Payable	123,171	-
Increase (Decrease) in Salaries Payable	2,272	2,073
Increase (Decrease) in Payroll Deductions Payable	25,382	25,791
Increase (Decrease) in Vested Benefits Payable	42,769	1,343
Increase (Decrease) in Deferred Revenue	(13,254)	(44,753)
Net Cash Provided (Used) by Operations	\$ (632,961)	\$ (1,138,376)
<u>Reconciliation of Cash and Cash Equivalents per Statement of Net Assets:</u>		
Cash-Current	\$ 1,083,900	\$ 465,671
Petty Cash	200	200
Restricted Cash	1,309,322	1,451,975
Restricted Investments	1,101,093	1,406,797
Total Cash and Cash Equivalents	\$ 3,494,515	\$ 3,324,643

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY
ISABELLA COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Statement V

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	<u>\$ 1,375</u>	<u>\$ 932</u>
<u>LIABILITIES</u>		
Due to Patients	\$ 633	\$ 320
Due to General Fund	<u>742</u>	<u>612</u>
Total Liabilities	<u>\$ 1,375</u>	<u>\$ 932</u>

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Isabella County Medical Care Facility is organized pursuant to the Michigan Social Welfare Act, Act 280 of 1939. Section 58 of this Act authorizes the County Department of Human Services Board, with the approval of the Board of Commissioners, to operate a county medical care facility.

The fund and agency accounts related to the operation of the Facility are appropriately included as a component unit of Isabella County, Michigan, and are an integral part of the County's reporting entity in accordance with the requirements of Statement 14 of the Governmental Accounting Standard Board (GASB), *The Financial Reporting Entity*. The basic financial statements of the Facility are incorporated in the County's Comprehensive Financial Report as an enterprise fund activity. Complete financial statements of Isabella County, Michigan, the primary government of the facility, can be obtained directly from the County's administrative office at 200 North Main Street, Mt. Pleasant, Michigan 48858.

B. SCOPE OF SERVICES

Through the provisions of the Michigan Social Welfare Act, Act 280 of 1939, Section 58, authorization is given to the County Department of Human Services Board, with the approval of the Board of Commissioners, "to supervise and be responsible for the operation of a county medical care facility...such facility shall provide a program of planned and continuing medical treatment and nursing care under the general direction and supervision of a licensed physician employed full or part-time...". The Isabella County Medical Care Facility is licensed through the Michigan Department of Public Health as a 100 bed skilled nursing facility (SNF).

The Facility accepts many inpatients upon discharge from the adjacent and attached Hospital. As a result, the Facility provides a higher intensity of services due to the acute medical needs of such patients.

Mid-year of 1999, the Facility expanded their services to include an Adult Day Care. The Adult Day Care offers families in the community an opportunity for daytime respite in the care of those individuals with Alzheimer's or similar conditions requiring 24-hour supervision.

Management believes the scope of services provided by the Facility are unusual when compared to other skilled care nursing facilities. The range and volume of specialized services to the community's public and private entities are beyond the standard operations of a conventional Medical Care Facility. The specialized services offered by the Facility are an eminent benefit to the community.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental-activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Facility's government-wide activities are considered to be business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Normally, separate financial statements would be provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds would be reported as separate columns in the fund financial statements. The Facility is made up of only one fund. This fund is an enterprise fund - proprietary fund type, and as such, all fund statements presented represent the Facility as a whole.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Isabella County Medical Care Facility are charges to patients for services. Patient service revenue is recorded at established gross rates and is reduced by third party contractual allowances. The third party contractual allowances reflect the difference between gross charges and cost for patients reimbursed on a cost basis (Medicare/Medicaid).

Reimbursement principles for the Medicare/Medicaid programs are subject to judgmental interpretation and to audits which could result in subsequent adjustments to revenue. Management of the Isabella County Medical Care Facility believes that it has properly applied reimbursement principles in the determination of revenue from the programs. Any differences between estimated provisions and final settlements with these programs are reported as non-operating revenue or expenses in the year final settlement occurs.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Facility.

The Facility reports the following major proprietary fund:

A single enterprise fund accounts for the activities of the Facility.

Additionally, the Facility has fiduciary responsibility for the following agency fund:

The Patient Fund is an agency fund in which patients deposit funds for personal and ancillary expenses.

E. THIRD PARTY REIMBURSEMENT

A substantial portion of the Isabella County Medical Care Facility's revenue is derived from services to patients under Medicare and Medicaid insurance programs whose payment principles were both based upon paying the lower of program costs, subject to limitations, or program charges, or a predetermined reimbursement amount per case. The program costs and the predetermined reimbursement amounts are determined by contractual agreement and by regulations promulgated under the Social Security Act and by the Michigan Department of Human Services. Medicare has established a listing of reimbursement amounts per type of patient cared for based on the evaluated level of care needed. Provision is made in the financial statements to reflect the amounts earned and due from third party payers based upon these principles.

As a result of participation in these programs, the financial condition of the Medical Care Facility is dependent upon the third parties' ability to reimburse the Facility.

MEDICAL CARE FACILITY
ISABELLA COUNTY
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CASH AND INVESTMENTS

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments (including restricted funds) with a maturity of three months or less when acquired. Investments are stated at fair value.

G. RECEIVABLES AND PAYABLES

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The taxing units that comprise the district levy taxes in December. The final collection date is February 28, after which uncollected taxes are turned over to the respective counties which pay off the delinquent real assessments and add the personal assessments to the county delinquent tax rolls.

The allowance for uncollectible amounts for the trade receivables is based on a weighted average of outpatient receivables with a percentage allocated for prior and current years along with a flat amount determined by management for inpatient receivables.

H. INVENTORIES AND PREPAID ITEMS

Inventories of consumable medical supplies have not been recorded as assets in the financial statements. The costs of such inventory items are recorded as expenditures at the time the items are purchased. The quantities of these inventories are considered to be stable in nature from year to year and not prone to materially varying fluctuations nor are they material in total.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

I. RESTRICTED ASSETS

Certain restricted Cash and Investment accounts have been established. The Restricted Asset for Vested Benefits is recorded as a separate investment account set aside to fund employee vested sick and vacation benefits and the net assets are restricted in the amount of \$512,243. The Funded Depreciation Restricted Asset is recorded as a separate investment account for the assets earmarked for future capital outlay expenses and the net assets are restricted in the amount of \$1,101,093. The Restricted Assets for Capital Projects is recorded in the project accounts in the amount of \$336,447.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. RESTRICTED ASSETS (Continued)

The Drayton and Minnie Miley Trust was established by Inez Vetter in August 1973, with a deposit to the Trust of assets in the approximate amount of \$61,362. The Trustees of the Drayton and Minnie Miley Trust are the Medical Care Facility's Administrator, Medical Director, and Director of Nursing. The Trustees may authorize the Trust monies to be used for the purchase of equipment to be used in conjunction with patient care. The terms of the Trust authorize the Trustees to expend any and all income as may be accumulated through the date of equipment purchase but the corpus of the Trust may not be invated in an amount in excess of 5% of the presently existing corpus with any single purchase, or in an amount in excess of 10% of said corpus for all purchases so made during any one calendar year. As of September 30, 2006 the Trust assets consist of \$61,362 of corpus amount and \$31,632 of unexpended accumulated income. The entire amount of \$92,994 is recorded as restricted net assets of which \$37,768 is expendable and \$55,226 is non-expendable.

The Isabella County Medical Care Facility Building, Equipment and Patient Care Trust was established by the Isabella County Social Services Board in 1974 to receive donations made by various individuals and organizations to the Isabella County Medical Care Facility. All donations are deposited to the Trust and the assets are used for equipment purchases. As of September 30, 2006 the Trust assets consist of \$163,968 and the entire amount is recorded as expendable restricted net assets.

A reconciliation of restricted net assets is as follows:

	<u>2006</u>	<u>2005</u>
Restricted for:		
Vested Employee Sick and Vacation Leave	\$ 512,243	\$ 495,395
Funding of Depreciation	1,101,093	1,406,797
Capital Projects	336,447	507,531
Drayton and Minnie Miley Trust	92,994	90,120
Patient Equipment Trust	<u>163,968</u>	<u>161,956</u>
Total Restricted Net Assets	<u>\$ 2,206,745</u>	<u>\$ 2,661,799</u>
	<u>2006</u>	<u>2005</u>
Restricted Net Assets per Statement I:		
Expendable	\$ 2,151,519	\$ 2,606,573
Non-Expendable	<u>55,226</u>	<u>55,226</u>
Total Restricted Net Assets	<u>\$ 2,206,745</u>	<u>\$ 2,661,799</u>

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. CAPITAL ASSETS

Capital assets, which include buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the facility as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The facility does not have infrastructure type assets.

Buildings, improvements, and equipment are depreciated using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Estimated Useful Life in Years</u>
Building and Improvements	5-50
Equipment	5-20

K. COMPENSATED ABSENCES

Using the criteria established in Governmental Accounting Standards Board (GASB) Statement 16, a liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place. Criteria for recognition of these two basic types of compensated absences are as follows:

- 1) Vacation and Similar Leave Absences - should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:
 - a) The employees' rights to receive compensation are attributable to services already rendered.
 - b) It is probable that the employer will compensate the employees for such benefits through paid time off or some other means, such as cash payments at termination or retirement.
- 2) Sick and Similar Leave Absences - should be accrued using one of the following termination approaches:
 - a) Under the Termination Payment Method, a liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement.
 - b) Under the Vesting Method, a liability should be based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. COMPENSATED ABSENCES (Continued)

The Medical Care Facility employee agreements state that accumulated employee sick leave benefits will be paid upon death, retirement, or severance of employment in accordance with certain stated percentages based on length of employment and that accumulated employee vacation pay will also be paid. Accordingly, unused employee sick leave benefits accrued using the Vesting Method and accumulated vacation benefits meet the definition of "compensated absences" and represent a future obligation of the Medical Care Facility as of September 30, 2006.

L. LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Capital lease/bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Capital lease/bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

M. COMPARATIVE DATA/RECLASSIFICATIONS

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

N. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A budget was adopted by the Department of Human Services Board for the Isabella County Medical Care Facility. The budget for an Enterprise Fund is an Informational Summary. An Informational Summary is not required to be presented in the financial statements for an Enterprise Fund, thus no comparison to the budget has been presented.

NOTE 3 - CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Facility is authorized to invest any of its funds in one (1) or more of the following:

1. Bond, securities, and other obligations of the United States or any agency or instrumentality of the United States.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
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Statement VI

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan associations, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act. No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government of federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

At year end, the carrying amount of the Medical Care Facility's cash and investments was comprised of the following:

	2006		
	Business- Type Activities	Fiduciary Funds	Total Primary Government
Cash on Hand	\$ 200	\$ 633	\$ 833
Deposits with Financial Institutions	272,160	742	272,902
Deposits with County Treasurer	2,121,062	-	2,121,062
Investments Held by County Treasurer	1,101,093	-	1,101,093
Total Cash and Investments	<u>\$ 3,494,515</u>	<u>\$ 1,375</u>	<u>\$ 3,495,890</u>

	2005		
	Business- Type Activities	Fiduciary Funds	Total Primary Government
Cash on Hand	\$ 200	\$ 320	\$ 520
Deposits with Financial Institutions	265,307	612	265,919
Deposits with County Treasurer	1,652,339	-	1,652,339
Investments Held by County Treasurer	1,406,797	-	1,406,797
Total Cash and Investments	<u>\$ 3,324,643</u>	<u>\$ 932</u>	<u>\$ 3,325,575</u>

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005

Statement VI

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. As of September 30, 2006 and 2005, Federal Deposit Insurance Corporation (FDIC) coverage of Facility deposits were as follows:

	2006		
	Insured	Uninsured	Total
Carrying Amount	\$ 111,795	\$ 3,383,262	\$ 3,495,057
Bank Balances	200,000	3,455,723	3,655,723

	2005		
	Insured	Uninsured	Total
Carrying Amount	\$ 112,155	\$ 3,212,900	\$ 3,325,055
Bank Balances	200,000	3,352,125	3,552,125

The actual bank balance of Cash and Investments held in the County Treasurer's name for the facility is insured only to the extent that some or all of the County's available insurance coverages could be allocated to these specific accounts. It is not practical to determine the insured portion of the cash on deposit with the Isabella County Treasurer.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2006 and 2005, the Facility did not have any investments that would be subject to rating.

Interest Rate Risk

The Facility will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Facility's cash requirements.

Concentration of Credit Risk

The Facility will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The Facility will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Facility will do business in accordance with Board approved policy.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
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Statement VI

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable - Patient Accounts consist of the following:

	2006	2005
Medicare	\$ 385,973	\$ 399,059
Medicaid	298,022	208,091
Private/Other	<u>382,292</u>	<u>250,761</u>
	1,066,287	857,911
Less Estimated Uncollectibles	<u>(18,000)</u>	<u>(18,000)</u>
Net Patient Accounts Receivable	<u>\$ 1,048,287</u>	<u>\$ 839,911</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Facility's business-type activities was as follows:

	2006		
	Beginning Balance 10/01/05	Additions	Ending Balance 9/30/06
Capital Assets Not Being Depreciated:			
Construction in Progress	\$ 2,521,970	\$ 667,096	\$ 3,189,066
			\$ -
Capital Assets Being Depreciated:			
Building and Improvements	8,437,670	3,189,066	-
Equipment			11,626,736
Administration	656,874	22,479	-
Maintenance	43,642	-	-
Laundry	4,726	-	-
Housekeeping	31,544	-	-
Nursing	837,672	92,489	-
Physical Therapy	273,252	-	-
Activities	19,591	-	-
Occupational Therapy	12,291	-	-
Adult Day Care	59,803	-	-
Child Care	-	29,679	-
Beauty Shop	695	-	-
Other	<u>44,742</u>	<u>-</u>	<u>-</u>
	44,742	-	44,742
Total Capital Assets Being Depreciated	10,422,502	3,333,713	-
			13,756,215
Accumulated Depreciation			
Building and Improvements	(1,808,094)	(251,438)	-
Equipment	<u>(1,248,983)</u>	<u>(137,277)</u>	<u>-</u>
	(1,248,983)	(137,277)	(1,386,260)
Total Accumulated Depreciation	<u>(3,057,077)</u>	<u>(388,715)</u>	<u>-</u>
	(3,057,077)	(388,715)	(3,445,792)
Net Capital Assets Being Depreciated	<u>7,365,425</u>	<u>2,944,998</u>	<u>-</u>
	7,365,425	2,944,998	10,310,423
Net Capital Assets	<u>\$ 9,887,395</u>	<u>\$ 3,612,094</u>	<u>\$ 3,189,066</u>
	\$ 9,887,395	\$ 3,612,094	\$ 10,310,423

MEDICAL CARE FACILITY
ISABELLA COUNTY
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NOTE 5 - CAPITAL ASSETS (CONTINUED)

	2005			
	Beginning	Additions	Deletions	Ending
	Balance 10/01/04			Balance 9/30/05
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 6,746,584	\$ 1,718,240	\$ 5,942,854	\$ 2,521,970
Capital Assets Being Depreciated:				
Building and Improvements	2,459,680	5,977,990	-	8,437,670
Equipment				
Administration	539,399	117,475	-	656,874
Maintenance	18,706	24,936	-	43,642
Laundry	4,726	-	-	4,726
Housekeeping	31,544	-	-	31,544
Nursing	643,693	193,979	-	837,672
Physical Therapy	273,252	-	-	273,252
Activities	19,591	-	-	19,591
Occupational Therapy	12,291	-	-	12,291
Adult Day Care	17,590	42,213	-	59,803
Beauty Shop	695	-	-	695
Other	44,742	-	-	44,742
Total Capital Assets Being Depreciated	4,065,909	6,356,593	-	10,422,502
Accumulated Depreciation:				
Building and Improvements	(1,609,427)	(198,667)	-	(1,808,094)
Equipment	(1,129,428)	(119,555)	-	(1,248,983)
Total Accumulated Depreciation	(2,738,855)	(318,222)	-	(3,057,077)
Net Capital Assets Being Depreciated	1,327,054	6,038,371	-	7,365,425
Net Capital Assets	<u>\$ 8,073,638</u>	<u>\$ 7,756,611</u>	<u>\$ 5,942,854</u>	<u>\$ 9,887,395</u>

Depreciation expense was charged to activities of the Facility and reported on the government-wide statements as follows:

	2006	2005
Business-type Activities:		
Primary Services	362,504	291,115
Therapy	16,047	16,207
Barber & Beautician	23	139
Adult Day Care	10,140	10,761
Total Business-type Activities	<u>\$ 388,714</u>	<u>\$ 318,222</u>

A donation of land was received at the inception of the Facility. The value of the land is not recorded since an amount cannot be reasonably determined.

MEDICAL CARE FACILITY
ISABELLA COUNTY
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NOTE 6 - DEFERRED REVENUE

Below is a breakdown of the Deferred Revenue Balance:

	<u>2006</u>	<u>2005</u>
Patient Pay Prebills	\$ 57,429	\$ 42,564
Private Pay Prebills	80,600	61,380
Transfers from Saginaw Chippewa Indian Tribe for which Corresponding Expenditures have not been made	<u>92,497</u>	<u>139,836</u>
	<u>\$ 230,526</u>	<u>\$ 243,780</u>

The entire deferred revenue balance is available but not yet earned.

NOTE 7 - LONG-TERM OBLIGATIONS

The Facility entered into a long-term capital lease/bond for the construction project with the Isabella County Building Authority. The Facility's other long-term obligations included compensated absences.

The long-term obligation activity can be summarized as follows:

	<u>2006</u>				
	<u>Balance 10/1/05</u>	<u>Additions</u>	<u>Payments/ Reductions</u>	<u>Balance 9/30/06</u>	<u>Amount Due Within One Year</u>
Capital Lease/Bond	\$ 7,475,000	\$ -	\$ 285,000	\$ 7,190,000	\$ 300,000
Less deferred amounts:					
For Issuance Discounts	<u>(59,200)</u>	<u>-</u>	<u>(3,482)</u>	<u>(55,718)</u>	
Total Capital Lease	7,415,800	-	281,518	7,134,282	
Compensated Absences	<u>304,763</u>	<u>315,349</u>	<u>272,580</u>	<u>347,532</u>	15,000
Total Business-type Activity Long-Term Liabilities	<u>\$ 7,720,563</u>	<u>\$ 315,349</u>	<u>\$ 554,098</u>	<u>\$ 7,481,814</u>	

MEDICAL CARE FACILITY
ISABELLA COUNTY
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NOTE 7 - LONG-TERM OBLIGATIONS (CONTINUED)

	2005				
	Balance 10/1/04	Additions	Payments/ Reductions	Balance 9/30/05	Amount Due Within One Year
Capital Lease/Bond	\$ 7,745,000	\$ -	\$ 270,000	\$ 7,475,000	\$ 285,000
Less deferred amounts:					
Discounts	(62,683)	-	(3,483)	(59,200)	
Total Capital Lease	7,682,317	-	266,517	7,415,800	
Compensated Absences	303,420	277,423	276,080	304,763	15,000
Total Business-type Activity Long-Term Liabilities	<u>\$ 7,985,737</u>	<u>\$ 277,423</u>	<u>\$ 542,597</u>	<u>\$ 7,720,563</u>	

Capital Lease

Issued: December 15, 2002

Original Amount: \$8,000,000

Interest: 3.00 - 4.60% (due May 1 and November 1)

Principal Due: May 1,

Fiscal Year Ended	Interest	Principal
2007	295,610	300,000
2008	286,610	315,000
2009	276,373	335,000
2010	264,647	350,000
2011	251,522	370,000
2012-2016	1,026,015	2,145,000
2017-2021	528,813	2,740,000
2022	29,210	635,000
Total Capital Lease	<u>\$ 2,958,800</u>	<u>\$ 7,190,000</u>

Compensated Absences

Amount estimated at September 30, 2006

\$ 347,532

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - LONG-TERM OBLIGATIONS (CONTINUED)

Interest

The facility capitalizes interest cost incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$152,080 and \$315,742 in 2006 and 2005, respectively.

The facility also charged interest cost to operations in the amount of \$278,733 in 2006. All interest incurred in 2005 was capitalized.

NOTE 8 - THIRD PARTY COST REPORT SETTLEMENT AMOUNTS AND APPEAL ISSUES

As explained in the Summary of Significant Accounting Policies, the third party reimbursement process results in amounts due to/receivable from the third parties as a result of the cost settlement procedures.

MEDICARE COST REPORTS

Medicare payment methods changed effective January 1, 1999 for the Facility wherein fixed rates per diagnosis for all services to Medicare patients now apply. The new payment method results in fixed amounts which are not subject to adjustment based on actual costs. An estimate of a receivable or payable based on cost reports is thus no longer applicable. This may be subject to change as a result of further medical record audits.

MEDICAID COST REPORTS

The estimated contractual allowance based on cost report filing results in no receivable or payable. Actual costs approximated expected reimbursement. This may be subject to adjustments as a result of future intermediary field audit procedures.

NOTE 9 - MAINTENANCE OF EFFORT PAYBACKS - MEDICAID

In 1980, the State enacted Public Act 391 which requires counties to pay "Maintenance of Effort" payments to the State. According to the Act's statutory formula, a Maintenance of Effort rate per patient day is established for patients at each medical care facility for each year. This rate is then multiplied by the number of days of nursing home services received by each Medicaid patient in the facility.

Based on their income levels, many Medicaid patients are required to pay a certain amount of each month's care in order to make themselves eligible for the Medicaid program. This results in the patients paying a portion of the month's care from their own resources, with the balance of the month's care then paid through the Medicaid program.

The portion of care paid for through the patient's own funds has been labeled by the State as "Institutional Code" costs. The State Department of Human Services has determined that, notwithstanding the fact that the patients themselves pay these "Institutional Code" payments rather than the State, days for which care is provided through these funds are to be included in calculating the Maintenance of Effort obligations and counties must pay to the State. The result is that counties reimburse the State for a portion of the funds that the State pays for Medicaid patients at medical care facilities and also for a portion of the funds that are not paid by the State but rather are paid by the patients themselves.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005

Statement VI

NOTE 9 - MAINTENANCE OF EFFORT PAYBACKS - MEDICAID (CONTINUED)

The total Maintenance of Effort (MOE) expenses recognized by Isabella County Medical Care Facility is as follows:

	<u>2006</u>	<u>2005</u>
MOE Paid in Cash During Year	\$ 165,788	\$ 117,311
Less MOE paid in Current Year for days recorded as Accounts Payable in Prior Year	(14,449)	(18,935)
Plus MOE incurred for days recorded as Accounts Payable as of September 30	<u>40,288</u>	<u>14,449</u>
Total MOE Expense Recognized	<u>\$ 191,627</u>	<u>\$ 112,825</u>

The effective MOE rate per day for 2006 and 2005 was \$9.24 and \$6.41, respectively, per patient day.

NOTE 10 - SHARED SERVICES FROM CENTRAL MICHIGAN COMMUNITY HOSPITAL

The Medical Care Facility is located adjacent to the unrelated Central Michigan Community Hospital (CMCH). The Facility shares various services with CMCH. The Facility receives dietary service, steam and electricity, and miscellaneous other services from CMCH.

Pursuant to an agreement approved in 2003, the Facility is billed for various services received from CMCH at cost.

Amounts based on the agreement are billed by each party to the other on a monthly basis with an annual reconciliation and adjustment annually. Amounts receivable or payable as a result of the annual settlement/reconciliation have been received or paid through September 30, 2006.

NOTE 11 - MICHIGAN MUNICIPAL EMPLOYEE RETIREMENT SYSTEM

The Isabella County Medical Care Facility participates with Isabella County in the Michigan Municipal Employees Retirement System. The retirement expenditure for 2006 and 2005 totaled \$300,092 and \$251,190 respectively. Payroll amounts and related disclosures are made in Isabella County's financial statements since individual units data is not available.

NOTE 12 - SELF INSURANCE FOR EMPLOYEE HEALTH BENEFITS

Isabella County has established an employee health benefits Self-Insurance Plan in which the Medical Care Facility participates as an employer group.

The Plan is administered under contractual agreement by Blue Cross and Blue Shield of Michigan (BCBSM). The agreement includes a provision for co-insurance whereby the County is responsible for claims incurred up to an agreed-upon ceiling but is insured against further loss by BCBSM. In order to provide for the co-insurance, the County pays a "stop-loss" premium. During 2006 and 2005, the participating employer groups were insured against losses greater than \$50,000 per occurrence, respectively. There is no coverage for aggregate losses under this arrangement. The co-insurance arrangements will be re-negotiated annually with BCBSM.

MEDICAL CARE FACILITY
ISABELLA COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005

Statement VI

NOTE 12 - SELF INSURANCE FOR EMPLOYEE HEALTH BENEFITS (CONTINUED)

Isabella County is responsible for collecting the premiums from the participating employer groups and for paying claim settlements, an administrative fee, and the "stop-loss" co-insurance premiums.

In 2006 and 2005, the Medical Care Facility paid premiums to Isabella County for employee health benefit coverage. The expense for employee health benefits incurred in 2006 and 2005 by the Medical Care Facility was \$212,536 and \$484,357.

NOTE 13 - INTERGOVERNMENTAL TRANSFER AGREEMENT

The State of Michigan has created a reimbursement policy for county-owned Class III nursing facilities that include a "Proportionate Share Pool" as part of Michigan's Medicaid program's payment for long-term nursing care services. Transfers are made in proportion to the reported Medicaid days in the cost reporting period ending between January 1 and December 31 based on the proportionate share pool for Class III nursing facilities. The Facility received \$447,484 and \$109,611 in transfers during the years ended September 30, 2006 and 2005. The gains from these transfers is recorded in Non-Operating Revenue.

NOTE 14 - CONTINGENCIES

Grants

Isabella County Medical Care Facility receives financial assistance from local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and can be subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the Enterprise Fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Isabella County Medical Care Facility at September 30, 2006 and 2005.

NOTE 15 - RELATED PARTY TRANSACTIONS

Isabella County Building Authority entered into a contract with Block Electric, whose owner is a direct relative of a member of the Isabella County Medical Care Facility's management, to provide services for the construction project at the Medical Care Facility. The Isabella County Building Authority has control of the project and the Medical Care Facility has entered into a capital lease with the Building Authority. The total amounts paid by the Isabella County Building Authority to Block Electric for the Medical Care Facility construction project for the years ended September 30, 2006 and 2005 were \$116,265 and \$169,645, respectively. The Medical Care Facility also used Block Electric's services through out the year and as such was paid from the Facility's general operating account. The amounts paid from the Facility's general operating account were immaterial.

OTHER SUPPLEMENTAL INFORMATION

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Schedule 1	
	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUE</u>		
<u>Inpatient Routine Services</u>		
Medicare	\$ 1,507,707	\$ 904,040
Medicaid	4,081,058	3,000,870
Blue Cross	67,300	10,270
Private Pay	<u>637,044</u>	<u>573,320</u>
Total Inpatient Routine Services	6,293,109	4,488,500
<u>Other Inpatient</u>		
Drugs	307,033	228,110
Supplies	159,489	109,591
Oxygen	5,040	10,296
Physical Therapy	729,650	586,500
Occupational Therapy	563,450	436,100
Speech Therapy	150,115	109,400
Medicare Ancillary Services		
Lab	69,010	49,680
X-Ray	17,575	11,806
Nuclear	1,474	926
EKG	<u>4,789</u>	<u>2,162</u>
Total Other Inpatient Services	<u>2,007,625</u>	<u>1,544,571</u>
Total Inpatient Services	8,300,734	6,033,071
<u>Outpatient Services</u>		
Adult Day Care	154,206	163,095
Total Outpatient Services	<u>154,206</u>	<u>163,095</u>
Total Patient Services Revenue	8,454,940	6,196,166
Contractual Allowances - Medicare/Medicaid	(1,251,840)	(948,369)
Contractual Allowances - CMCH	<u>45,888</u>	<u>(20,593)</u>
Net Patient Service Revenue	7,248,988	5,227,204
<u>Charges for Services and Other</u>		
Barber and Beautician Services	12,959	12,281
Total Charges for Services and Other	<u>12,959</u>	<u>12,281</u>
TOTAL OPERATING REVENUE	7,261,947	5,239,485

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Schedule 1

	<u>2006</u>	<u>2005</u>
<u>OPERATING EXPENSES</u>		
Administrative and General		
Salaries	\$ 330,143	\$ 312,543
Retirement	15,479	39,527
Social Security	21,580	21,025
Hospitalization Insurance	21,195	52,565
Workers' Compensation Insurance	3,596	2,804
Life and Disability Insurance	1,017	2,384
Office Supplies	19,707	20,834
Printing and Binding	1,913	139
Postage	3,040	2,905
Memberships and Subscriptions	4,974	3,859
Bank Fees	310	260
Contractual Services		
Legal	1,709	1,979
Audit and Other	16,863	18,031
Other	14,681	17,293
Consultants	16,093	26,841
Communications - Telephone	22,418	22,374
Cable TV	5,163	5,040
Travel	4,784	5,015
Advertising	507	401
Public Relations	1,662	1,326
Insurance and Bonds	57,655	53,243
Office Equipment Repairs and Maintenance	359	-
Employee Training and Improvement	-	406
Depreciation Expense	<u>42,874</u>	<u>34,475</u>
Total Administrative and General	607,722	645,269

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Schedule 1

	<u>2006</u>	<u>2005</u>
<u>OPERATING EXPENSES (CONTINUED)</u>		
Plant Operation and Maintenance		
Salaries	\$ 137,827	\$ 127,670
Retirement	12,887	9,654
Social Security	10,227	9,469
Hospitalization Insurance	8,045	20,250
Workers' Compensation Insurance	8,540	6,659
Life and Disability Insurance	394	480
Maintenance Supplies	15,624	12,451
Gas, Oil, and Grease	-	799
Printing and Binding	510	51
Grounds Care and Maintenance	9,692	5,161
Elevator Maintenance	26,821	22,161
Contracted Services	4,057	3,934
Utilities	160,551	129,429
Building Repairs and Maintenance	7,806	6,992
Equipment Repairs and Maintenance	31,903	4,786
Depreciation Expense	<u>8,659</u>	<u>8,679</u>
Total Plant Operation and Maintenance	443,543	368,625
Laundry		
Clothing and Bedding	4,630	5,363
Laundry Supplies	2,209	5,876
Contractual Services	61,870	53,959
Depreciation Expense	58	73
Equipment and Repairs Maintenance	<u>-</u>	<u>1,146</u>
Total Laundry	68,767	66,417
Housekeeping		
Salaries	177,162	142,729
Retirement	10,051	7,240
Social Security	12,674	10,202
Hospitalization Insurance	14,248	30,375
Workers' Compensation Insurance	8,540	6,659
Health Services	321	-
Life and Disability Insurance	237	288
Janitorial Supplies	43,053	32,823
Equipment and Repairs Maintenance	521	-
Advertising	<u>79</u>	<u>-</u>
Total Housekeeping	266,886	230,316

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Schedule 1

	<u>2006</u>	<u>2005</u>
<u>OPERATING EXPENSES (CONTINUED)</u>		
Dietary		
Food	\$ 56,220	\$ 48,140
Kitchen Supplies	958	954
Contractual Services	645,449	358,757
Contractual Services- Dietician Services	<u>59,406</u>	<u>41,766</u>
Total Dietary	762,033	449,617
Pharmacy		
Prescription and OTC Drugs	266,740	173,401
Stock Drugs	13,564	26,344
Supplies	26	-
Contractual Services	3,115	781
Equipment	<u>1,625</u>	<u>900</u>
Total Pharmacy	285,070	201,426
Nursing Services		
Salaries	2,729,141	2,278,883
Retirement	239,005	171,567
Social Security	198,335	167,268
Hospitalization Insurance	144,518	334,121
Workers' Compensation Insurance	156,413	121,963
Health Services	5,783	3,863
Life and Disability Insurance	4,258	5,179
Medical Supplies	45,379	36,459
Other Supplies	94,479	101,674
Diapers and Pads	38,458	27,785
Printing and Binding	801	773
Memberships and Subscriptions	1,069	1,016
Contractual Services		
Medical Waste Disposal	3,540	2,822
Lab/X-Ray	118,999	64,291
Medical Records	-	4,638
Medical Director	19,649	19,550
Physician Services	48,000	50,000
Travel	674	2,402
Advertising	490	1,625
Equipment Repairs and Maintenance	21,553	12,766
Employee Training and Improvement	4,641	3,230
Patient Transportation	3,971	-
Depreciation Expense	55,835	46,552
Miscellaneous	<u>239</u>	<u>592</u>
Total Nursing Services	3,935,230	3,459,019

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Schedule 1	
	<u>2006</u>	<u>2005</u>
<u>OPERATING EXPENSES (CONTINUED)</u>		
Physical Therapy		
Supplies	\$ 184	\$ 2,014
Printing and Binding	51	-
Memberships and Subscriptions	-	50
Contractual Services		
Outside Services	239,139	195,928
Equipment Repairs and Maintenance	-	390
Bad Debt Expense	-	9,075
Depreciation Expense	<u>14,834</u>	<u>14,994</u>
Total Physical Therapy	254,208	222,451
Activity Department		
Salaries	103,610	91,699
Retirement	12,021	8,447
Social Security	7,258	6,429
Hospitalization Insurance	12,891	25,312
Workers' Compensation Insurance	450	350
Life and Disability Insurance	315	384
Supplies	4,751	5,471
Memberships and Subscriptions	1,653	436
Printing and Binding	81	-
Depreciation Expense	2,304	2,304
Travel	1,100	555
Eden Committee	2,167	2,629
Miscellaneous	<u>-</u>	<u>453</u>
Total Activity Department	148,601	144,469
Occupational Therapy		
Supplies	-	94
Contractual Services	184,857	140,437
Depreciation Expense	<u>1,213</u>	<u>1,213</u>
Total Occupational Therapy	186,070	141,744
Speech Therapy		
Contractual Services	41,432	29,203
Supplies	<u>183</u>	<u>151</u>
Total Speech Therapy	41,615	29,354

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Schedule 1	
	<u>2006</u>	<u>2005</u>
<u>OPERATING EXPENSES (CONTINUED)</u>		
Barber and Beautician		
Workers' Compensation Insurance	\$ 450	\$ 350
Supplies	648	393
Contracted Services	9,871	9,503
Depreciation Expense	<u>23</u>	<u>139</u>
Total Barber and Beautician	10,992	10,385
Social Services		
Salaries	108,237	99,579
Social Security	17,472	14,951
Hospitalization Insurance	4,459	10,125
Workers' Compensation Insurance	449	350
Life and Disability Insurance	552	671
Outside Services	28	-
Supplies	447	559
Employee Training and Improvement	<u>20</u>	<u>364</u>
Total Social Services	131,664	126,599
Adult Day Care		
Salaries	114,272	119,158
Retirement	10,649	14,755
Social Security	8,130	8,573
Hospitalization Insurance	7,180	11,609
Workers' Compensation Insurance	754	499
Life and Disability Insurance	301	366
Supplies	3,437	4,795
Printing and Binding	354	-
Raw Food	1,882	1,443
Client Meals	6,813	6,597
Memberships and Subscriptions	285	213
Communications - Telephone	444	953
Travel	1,777	1,412
Transportation	8,032	4,550
Advertising	299	1,710
Rental - Building	72,250	72,000
Depreciation Expense	<u>10,140</u>	<u>10,761</u>
Total Adult Day Care	246,999	259,394
Child Care		
Depreciation Expense	1,147	-

MEDICAL CARE FACILITY
ISABELLA COUNTY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Schedule 1	
	<u>2006</u>	<u>2005</u>
<u>OPERATING EXPENSES (CONTINUED)</u>		
Miscellaneous		
Maintenance of Effort	\$ 191,627	\$ 112,825
Refunds and Other	4,798	1,506
Depreciation Expense	<u>190</u>	<u>365</u>
Total Miscellaneous	<u>196,615</u>	<u>114,696</u>
TOTAL OPERATING EXPENSES	<u>7,587,162</u>	<u>6,469,781</u>
Operating Income (Loss) Before Depreciation - Building	(325,215)	(1,230,296)
Less Depreciation - Building	<u>(251,437)</u>	<u>(198,667)</u>
OPERATING INCOME (LOSS)	(576,652)	(1,428,963)
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Interest Revenue	76,544	150,503
Property Tax Revenue	1,150,880	1,072,663
Rental Income		
Building	80,000	72,750
Other		
QAS Revenue	781,732	-
Intergovernmental Transfer In	-	2,512,606
Intergovernmental Transfer Payment	-	(2,401,394)
Provider Tax Expense	(334,248)	-
Intergovernmental Transfer Management Fee	<u>-</u>	<u>(1,601)</u>
Total Other	<u>447,484</u>	<u>109,611</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	1,754,908	1,405,527
<u>OTHER FINANCING SOURCES (USES)</u>		
Contributions from Saginaw Chippewa Indian Tribe	130,159	170,515
Private Donations	14,209	10,516
Construction Interest Expense	<u>(278,733)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(134,365)</u>	<u>181,031</u>
NET INCOME (LOSS)	1,043,891	157,595
RETAINED EARNINGS - OCTOBER 1	<u>5,794,327</u>	<u>5,636,732</u>
RETAINED EARNINGS - SEPTEMBER 30	<u>\$ 6,838,218</u>	<u>\$ 5,794,327</u>

MEDICAL CARE FACILITY
ISABELLA COUNTY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2006

Schedule 2

	Balance <u>09/30/05</u>	Additions	Deductions	Balance <u>09/30/06</u>
<u>Patient Agency Fund</u>				
ASSETS				
Cash and Investments	\$ 932	\$ 1,489	\$ 1,046	\$ 1,375
LIABILITIES				
Due To Patients	\$ 320	\$ 664	\$ 351	\$ 633
Due To Medical Care Facility Operating	<u>612</u>	<u>825</u>	<u>695</u>	<u>742</u>
TOTAL LIABILITIES	<u>\$ 932</u>	<u>\$ 1,489</u>	<u>\$ 1,046</u>	<u>\$ 1,375</u>



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

December 15, 2006

Department of Human Services Board
Medical Care Facility
Isabella County, Michigan

We have audited the financial statements of Medical Care Facility, Isabella County, as of and for the year ended September 30, 2006, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

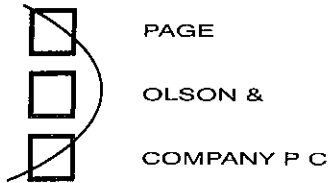
As part of obtaining reasonable assurance about whether the Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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AUDIT COMMUNICATION AND
REPORT OF COMMENTS AND RECOMMENDATIONS

December 15, 2006

Department of Human Services
Board of Directors
Isabella County Medical Care Facility
Mt. Pleasant, MI 48858

We have recently completed our audit of the financial statements of Isabella County Medical Care Facility for the year ended September 30, 2006. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE
UNITED STATES OF AMERICA**

We conducted our audit of the financial statements of Isabella County Medical Care Facility in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have the following related to the above to report at this time:

Estimates

Management estimates that \$18,000 of the Inpatient receivable is also uncollectible.

Audit Adjustments

Various adjustments were made at fiscal year-end to record the capital project activity including recording the ending cash, the addition to the construction in progress and the property taxes receivable. Such adjustments are part of the year-end accounting process. We expect management to provide the information that comprises these amounts so we can apply auditing procedures to satisfy ourselves that the information is corroborated.

**COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/
COMPLIANCE/EFFICIENCY**

In planning and performing our audit of the financial statements of the Medical Care Facility, for the year ended September 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Facility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

There were no matters that we believe to be reportable conditions other than those already reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, if any, which is on page 43 of the financial statements.

SUMMARY

We would like to thank the Isabella County Medical Care Facility personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This communication is intended for the information of the members of the Facility's Board, management, the State of Michigan, and Isabella County, and is not intended to be and should not be used by anyone other than these specified parties.

Page, Olson & Company